



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Monetary policy – perspectives and challenges

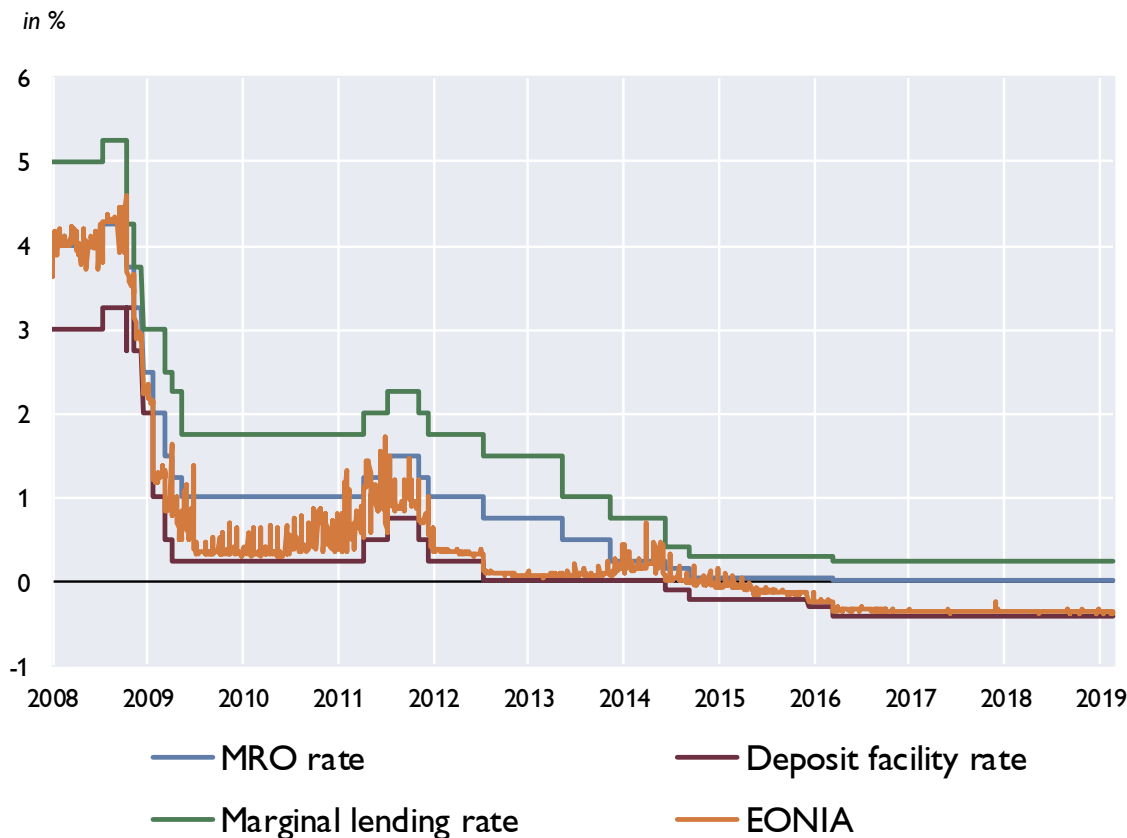
Global Bank Capital Forum, London, 13 March 2019

Prof. Dr. Ewald Nowotny
Governor of the Oesterreichische Nationalbank
www.oenb.at



Historically low monetary policy rates in the euro area...

ECB key interest rates and money market rates

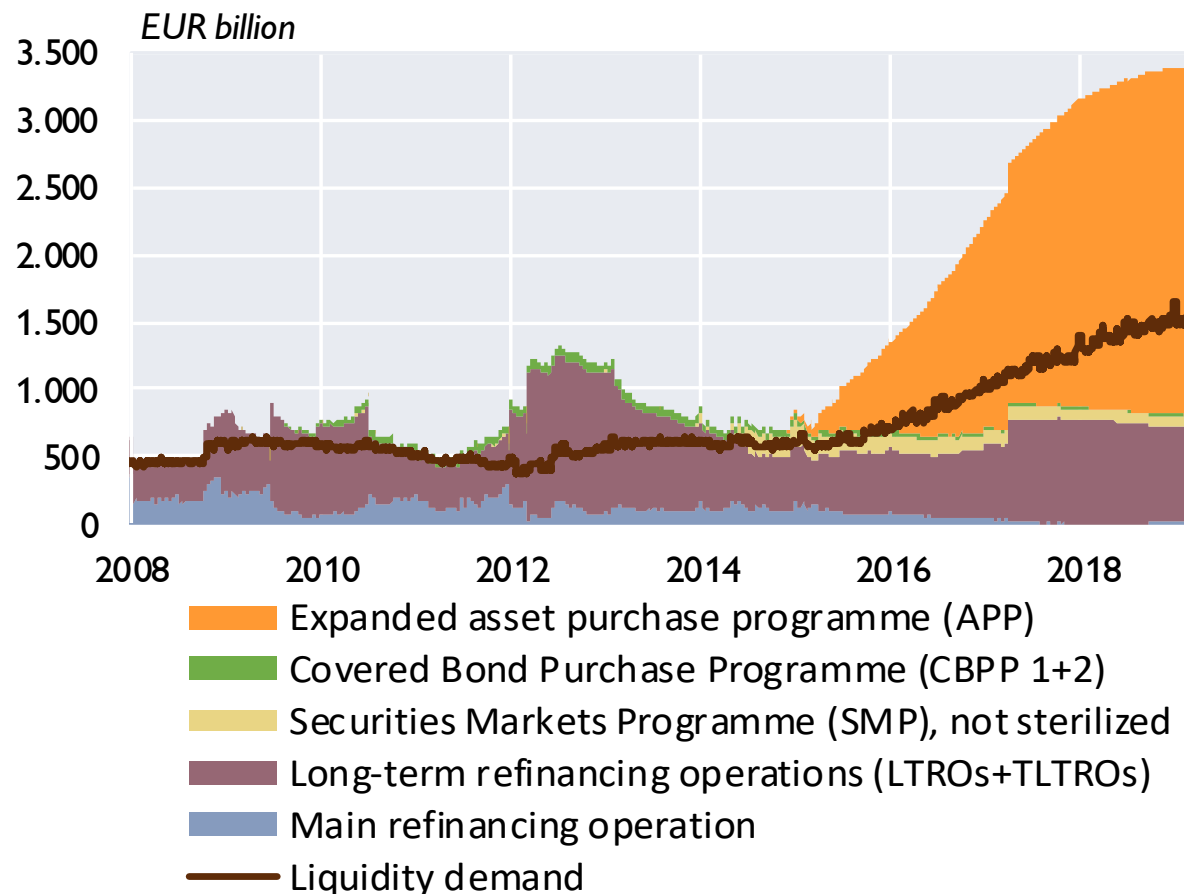


Source: ECB, Macrobond.

- Between 2008 and 2016, the ECB Governing Council decreased the interest rate of the main refinancing operation (policy rate) by 425 bps.
- Additionally, the Eurosystem created EUR 1,900 billions of excess liquidity. This amount determines the position of money market rates within the ECB policy-rate corridor.
- Consequently, money market rates have been lowered by another 40 bps. The EONIA, for example, is currently hovering around -0.37% .

... and large asset purchase programmes

Monetary policy operations of the Eurosystem

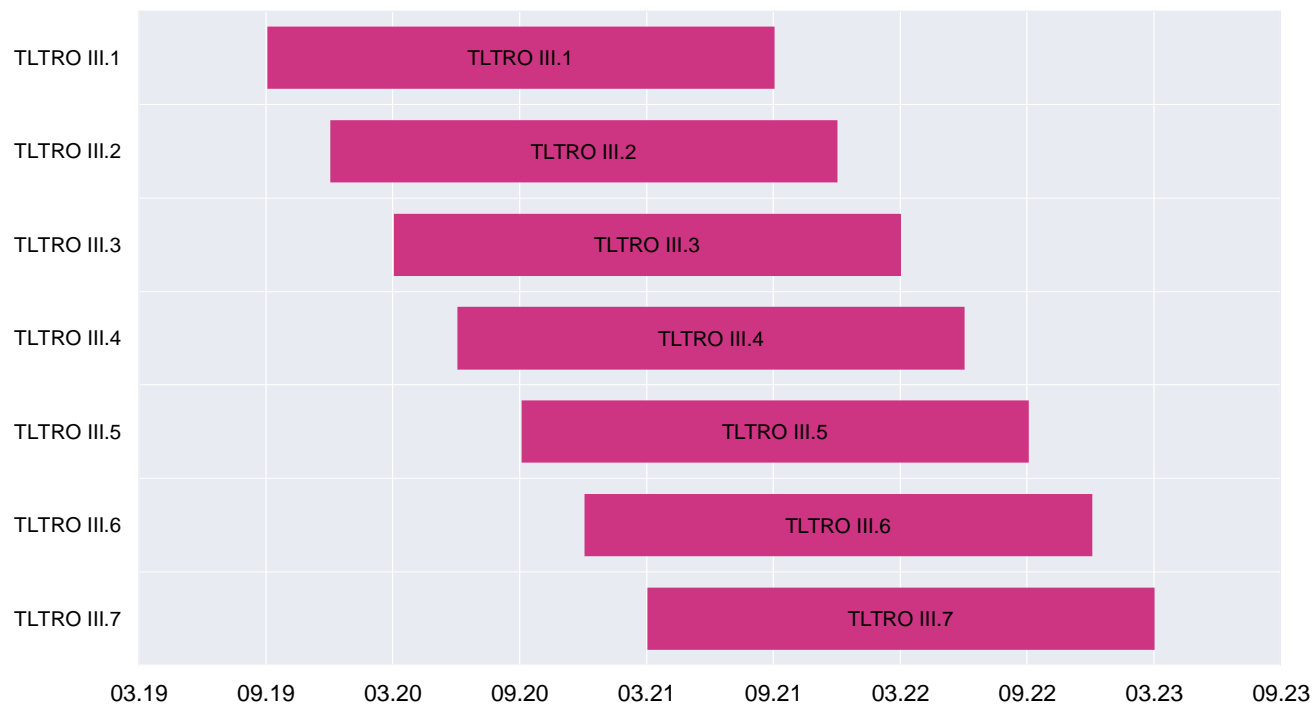


Source: ECB, own calculations.

- Between 2015 and 2018, monetary policy has created EUR 3,400 billion in central bank liquidity:
 - With nearly EUR 2,600 billion, the expanded asset purchase programme (APP) accounts for the lion's share of this volume.
 - The targeted longer-term refinancing operations (TLTROs II) are contributing EUR 720 billion.

The third generation of targeted longer-term refinancing operations (TLTROs III)

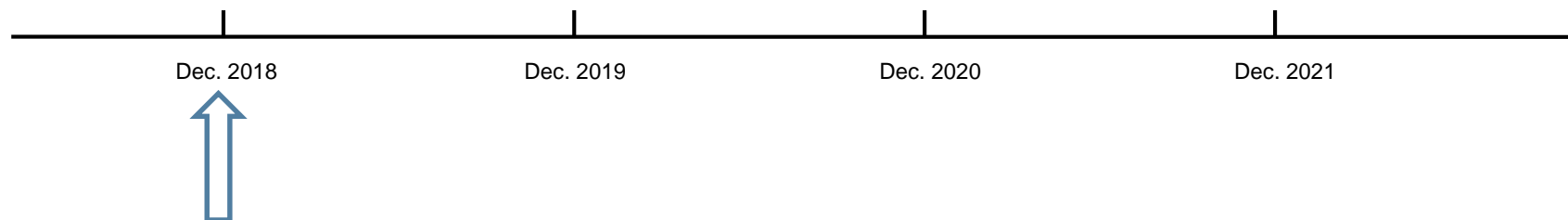
Timing of TLTROs III



Source: OeNB.

- A new series of quarterly targeted longer-term refinancing operations (TLTRO III) will be launched in September 2019. The last operation of this series will be offered in March 2021.
- The last operation of the second generation of TLTROs will mature in March 2021.
- Under TLTRO III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans (as at 28 February 2019).
- The rate will be indexed to the interest rate on the main refinancing operations over the life of each operation.

How will the Eurosystem proceed?



Net purchases under the asset purchase programme (APP) ended on December 31, 2018.

The ECB Governing Council expects policy rates to remain at their present levels at least through the end of 2019, and in any case for as long as necessary.

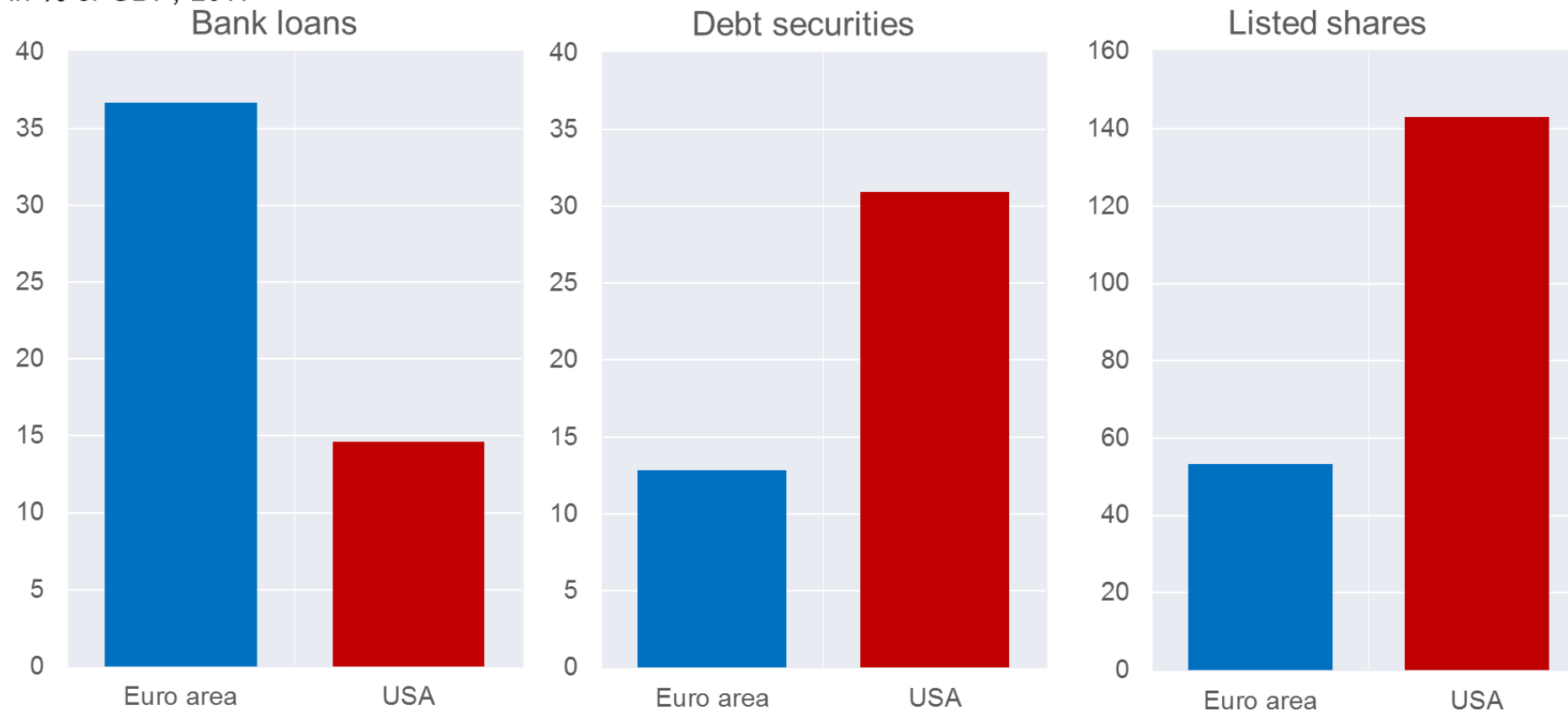
Additionally, the principal payments from maturing APP securities will be reinvested, in full, for an extended period of time past the date when the key ECB interest rates will start to rise.

Lending operations (with maturities of one week and three months) will be conducted as fixed rate tender procedures with full allotment for as long as necessary, and at least until March 2021.

The corporate sector is more bank-dependent in the Euro area than in the USA

Sources of corporate financing

In % of GDP, 2017

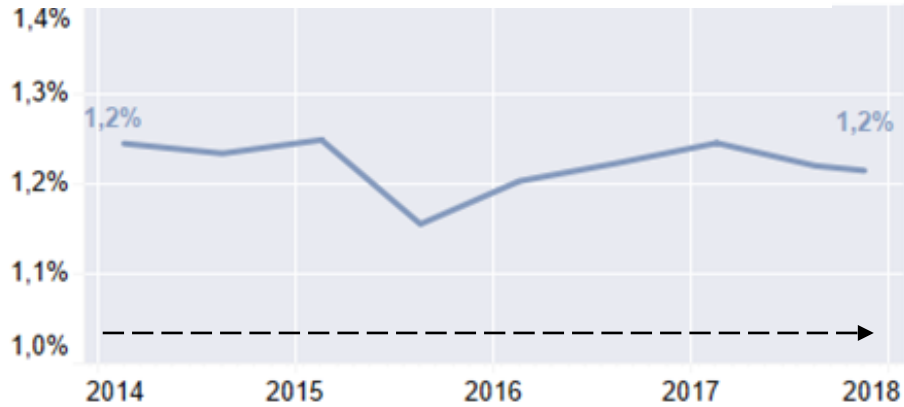


Source: ECB, Federal Reserve Bank, Macrobond.

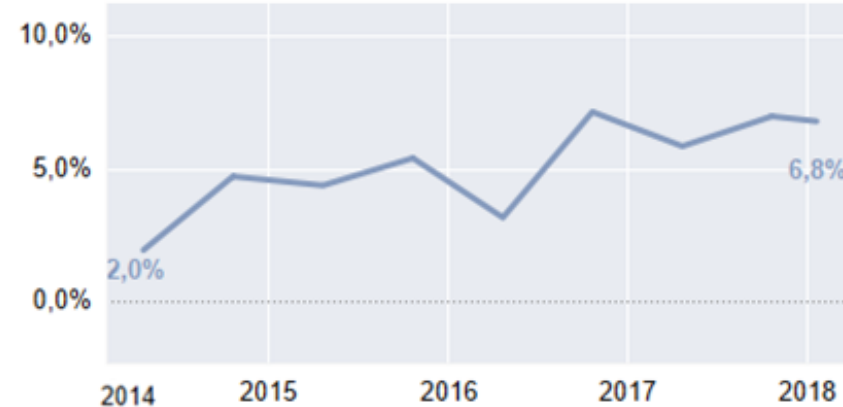
Banks Profitability and Business Models in Europe

Stable interest margins and historically low cost of risk were the main drivers of increasing bank profitability over the past years

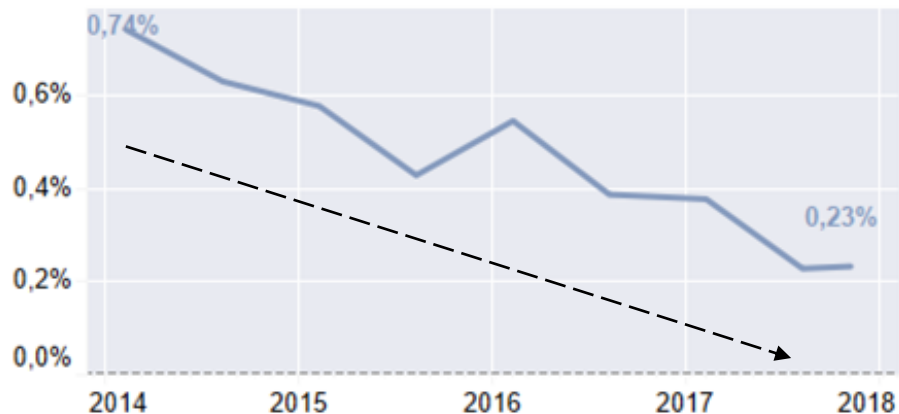
Evolution of Net Interest Margin



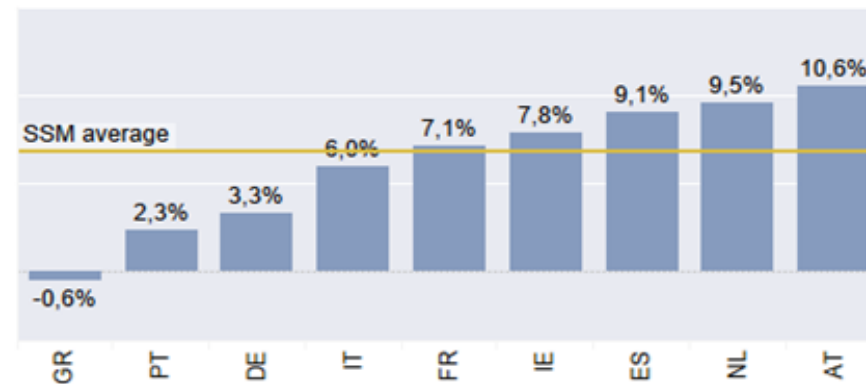
Evolution of Return on Equity



Evolution of Cost of Risk



Return on Equity per EUR-Country



Q3/2018

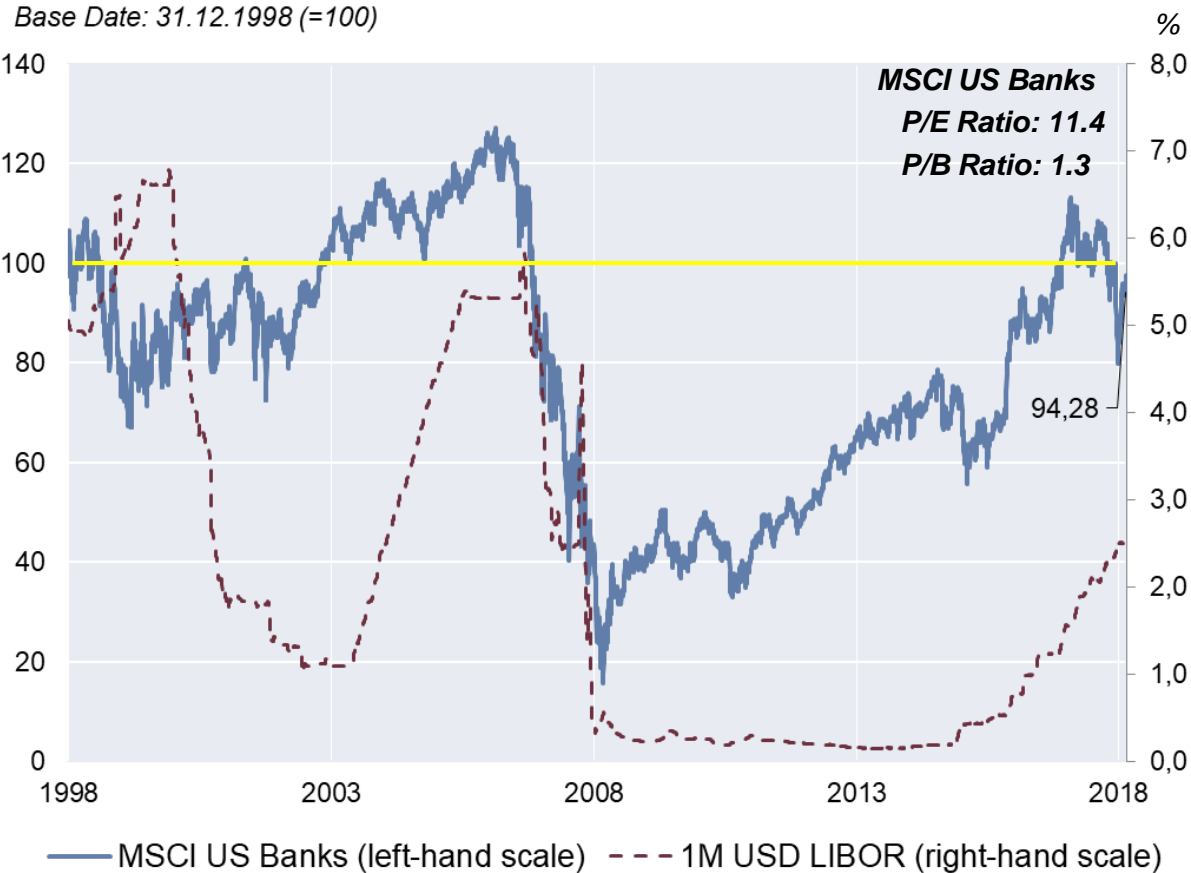
Source: OeNB, EZB.

Bank Sample: all Significant Institutions (SIs)

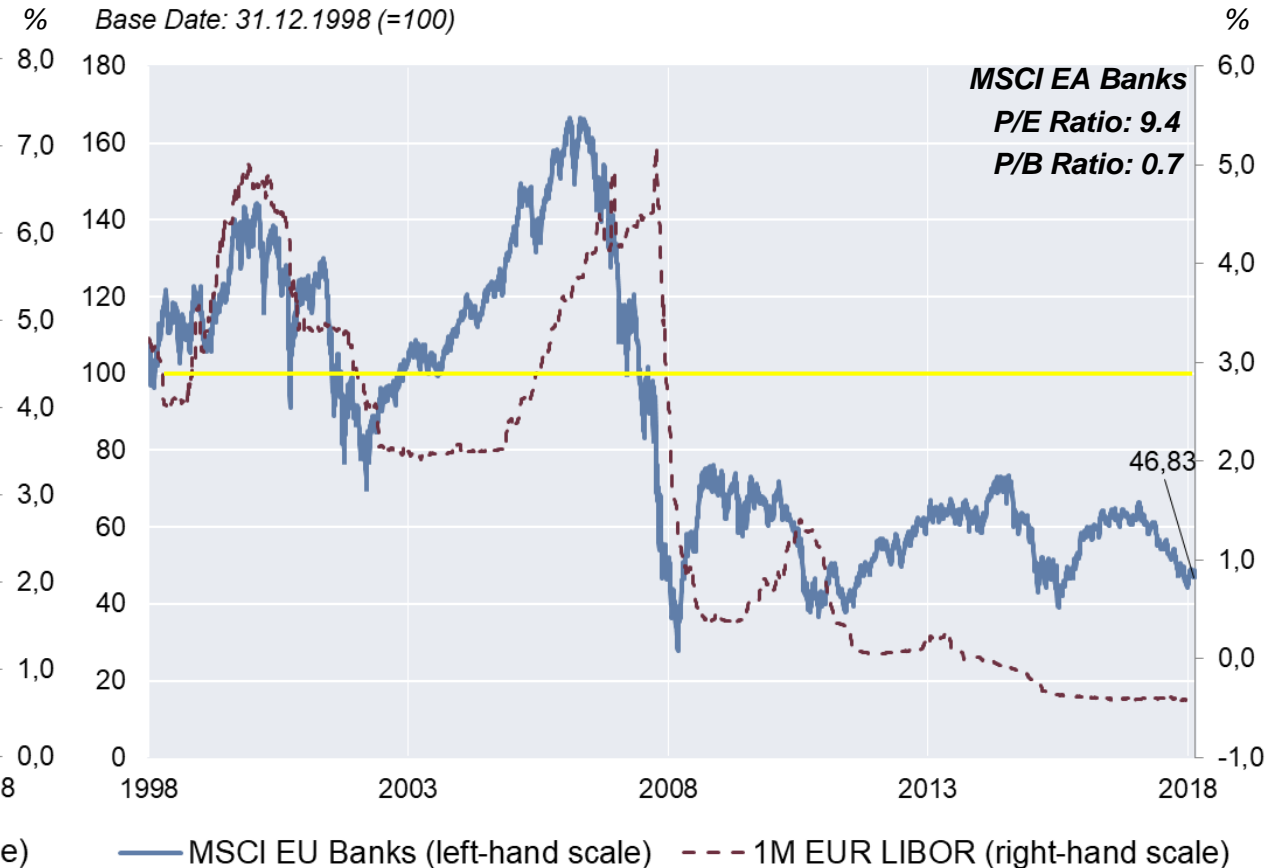
Comparison: US Banks vs. European Banks

Since financial crisis 07/08, US banks consistently outperformed their European peers

US: Stock Price and Interest Rate Environment



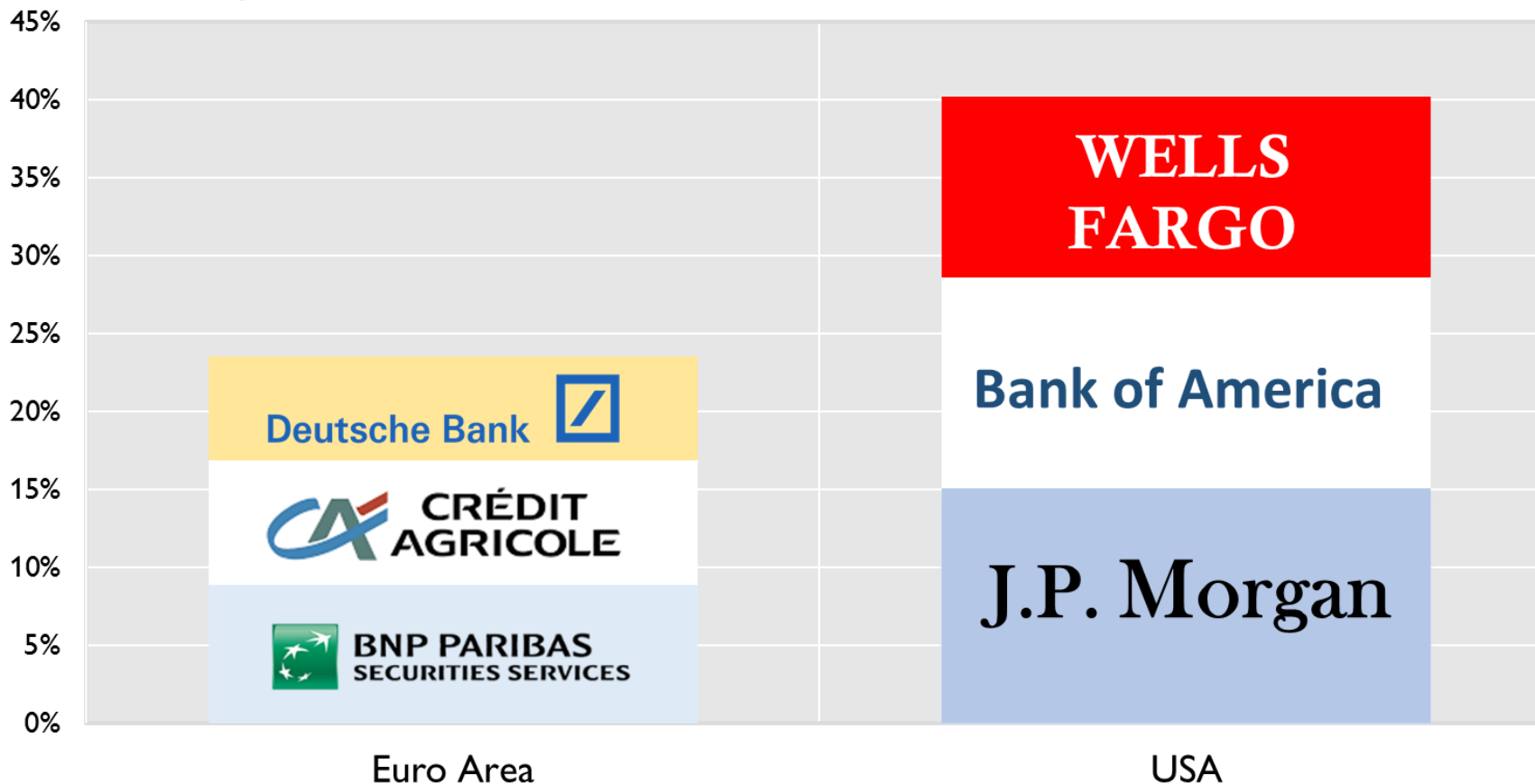
Europe: Stock Price and Interest Rate Environment



Comparison: US Banks vs. European Banks

Concentration: share of top 3 banks in total banking assets

in % of total banking sector assets



Source: ECB, FED, SNL

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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